DOCUMENT RESUME

ED 454 684 EF 005 320

TITLE	U.S. Department of Education Guidance on the Qualified Zone Academy Bonds (Section 226 of the Taxpayer's Relief Act of 1997, Section 1397E of the Internal Revenue Code).
INSTITUTION	Department of Education, Washington, DC.
PUB DATE	1998-05-15
NOTE	8p.
AVAILABLE FROM	For full text: http://www.ed.gov/offices/OVAE/qzabfin.html.
PUB TYPE	Guides - Non-Classroom (055)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	*Educational Facilities Improvement; *Financial Support; Guidelines; *Public Schools; *School Business Relationship
IDENTIFIERS	*Qualified Zone Academy Bonds

ABSTRACT

Beginning in 1998, state and local governments can issue Qualified Zone Academy Bonds (QZABs) to raise funds for use of a Qualified Zone Academy. Banks and other lending institutions can receive tax credit as an incentive to hold these bonds. This document provides guidance on how states, school districts, and schools can link to QZABs and how other Federal education programs may support innovative school partnerships. It offers suggestions that allow for creative partnerships between a school and a business and presents examples of ways school/business partnerships and QZABs could work. (GR)

Reproductions supplied by EDRS are the best that can be made
from the original document.

ED 454 684

U.S. Department of Education Guidance on The Qualified Zone Academy Bonds (Section 226 of the Taxpayer's Relief Act of 1997, Section 1397E of the Internal Revenue Code)

U.S. DEPARTMENT OF EDUCATION
Office of Educational Research and Improvement
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)
☒ This document has been reproduced as received from the person or organization originating it.
☐ Minor changes have been made to improve reproduction quality.
• Points of view or opinions stated in this document do not necessarily represent official OERI position or policy.

April 15, 1998

Introduction

Beginning in 1998, state or local governments can issue qualified zone academy bonds (QZABs) to raise funds for the use of a Qualified Zone Academy. Certain banks, insurance companies, and corporations actively engaged in the business of lending money can receive a tax credit as an incentive to hold these bonds.

To become eligible for a QZAB, a school must have established a partnership with a business and be located either in an Empowerment Zone or an Enterprise Community (EZ/EC) (see attached list) or, if the school is located outside an EZ or EC, local school officials must have a reasonable expectation that at least 35 percent of the school's students will be eligible for free or reduced cost lunches as authorized by the National School Lunch Act.

Purpose of this Guidance

The guidance that follows discusses how States, school districts and schools can link to this source of capital and how other Federal education programs may support the innovative school partnerships developed under the authority provided by the aforementioned legislation.

What follows are suggestions that allow for creative partnerships between a school and a business. The proceeds from Qualified Zone Academy Bonds (QZABs) and the 10 percent that private business must contribute may be used to begin or enhance reform initiatives at the school that may include augmenting Federal education programs.

States would issue QZABs during two calendar years. The State Education Agency (SEA) is encouraged to notify all schools eligible to receive QZAB funds of their availability and the process by which schools can apply for such funds.

The following guidance in this document does not impose any requirements beyond those contained in the relevant provision of the statute and pertinent regulations. Nor is the guidance meant to replace any guidance provided by the U.S. Department of the Treasury or the Internal Revenue Service (IRS), see attached legislation (Section 226(a) of the *Taxpayer Relief Act of 1997*) and the IRS. (See attached Temporary Regulation of January 1, 1998 and IRS Publication No. 154).

Overview

Educators and employers have expressed concerns about the ability of high poverty schools to address the vital issue of how they prepare their students for a more competitive global economy. QZABs allow schools and school districts to focus resources more effectively on building high standards that will equip students for the more challenging demands of the 21st century workplace.

EF 005 320

BEST COPY AVAILABLE

Section 226 of *The Taxpayer Relief Act of 1997* provides a new financial tool that can be used by State Education Agencies to encourage the formation of partnerships between public schools and local businesses. The Act provides for $400 million of bond authority in 1998 and $400 million in 1999 for issuance of QZABs. In January 1998 the IRS published the allocation among States in proportion to each State's share of the poverty population. (See attached table.) QZABs are issued in support of Qualified Zone Academies, schools (or programs within a school) that enter into partnerships with local businesses to enhance the academic curriculum, increase graduation and employment rates, and better prepare students for the rigors of college and the workforce under a plan approved by the local school system. Eligible schools must be located in an empowerment zone or an enterprise community (see attached list) or expect to have at least 35 percent or more of their students eligible for free or reduced lunch under the National School Lunch Act. Students in a Qualified Zone Academy must be subject to the same academic standards and assessments as other students educated by the local school system.

QZABs are a new financial instrument that provide a different form of subsidy from traditional tax-exempt bonds. Interest on QZABs is paid by the federal government in the form of an annual tax credit to a bank (or other eligible financial institution) that holds the QZAB. QZABs are issued by a State or local government entity for the benefit of a Qualified Zone Academy. The QZAB issuer is responsible for repayment of the principal upon maturity. The credit (interest) rate and maximum maturity applicable for each month of issue are determined by statutory formulas. For additional details, see the temporary regulations (Rev. Proc. 98-9) issued by the Internal Revenue Service (attached).

The proceeds of QZABs can be used only for:

- rehabilitating or repairing the public school facility in which the academy is established;
- providing equipment for use at an academy;
- developing course materials for education to be provided at an academy;or
- training teachers and other school personnel in an academy.

Issuing governments (either state or local) will have to determine whether the purposes for which the QZAB is issued conform to applicable State or local law regarding the incurring of indebtedness.

Before QZABs may be issued there must be a written agreement between a Qualified Zone Academy and one or more local business(es) under which the business(es) pledge contributions having a present value of at least 10 percent of the gross proceeds of the QZAB. For this purpose the following constitute eligible contributions:

- equipment for use in the qualified zone academy (including state-of-the-art technology and vocational equipment),
- technical assistance in developing curriculum or in training teachers in order to promote appropriate market driven technology in the classroom,
- internships, field trips, or other educational opportunities outside the academy for students, or
- any other property (including cash) or service specified by the Local Education Agency

Each State Education Agency has the responsibility of allocating portions (or all) of the amount of QZAB authority allocated to the State to one or more Qualified Zone Academies. States may develop their own

process to implement the QZAB provisions. Amounts allocated to a State for a year that are not allocated to Qualified Zone Academies during that year may be carried over and allocated in any subsequent year.

The Bond Program

The QZAB bondholder (these include banks, insurance companies and corporations actively involved in the business of lending money) receives a federal income tax credit in an amount equal to a percentage of the face amount of the bond. The State or local government is responsible for paying the principal amount, and interest, if the bond so specifies.

The maximum term of the indebtedness, about 14 years under current market conditions, is set so that the State or local government's obligation to repay in present value terms will be 50 percent of the borrowed amount

Enhancing Improvement Efforts

The legislation clearly states that students in the school must be subject to the same academic standards and assessments as other students educated by the local school system. The comprehensive education plan developed by the partnership must be approved by the Local Education Agency (LEA).

AN EXAMPLE OF THE WAY A QZAB COULD WORK: A for-profit hospital is a major employer in an enterprise community ("the zone"). The hospital has indicated a willingness to cooperate with the school in the zone to establish a special academic program that would prepare students for jobs at the hospital. The hospital is willing to donate state-of-the-art medical equipment and computer software to the school and to provide internship and mentoring experiences for students. The school has determined that it needs to renovate a classroom to accommodate the donated equipment, purchase appropriate instructional material, and train teachers to facilitate the use of the equipment and internship and mentoring components of the program. The school estimates that this would cost $500,000.

In order to obtain the benefits of the low-cost capital afforded through the Qualified Academy Bond ("QZAB") tax credit, the school would need to take the following steps.

1. The school obtains from the hospital an estimate of the value of the equipment, personnel time and facility cost associated with the internship and mentorship opportunities. Regular tax rules concerning the donation of equipment, personnel time and associated costs of administering the internship and mentorship program would apply.

2. If the value of the hospital's donation is equal to at least 10 percent of the gross bond proceeds (10 percent of $500,000 or $50,000 in the example provided), the school would obtain a written commitment from the hospital of this donation.

3. The school contacts the financial officer and other school system personnel responsible for debt issuance. The QZAB must be issued by a State or local governmental unit. In most cases, the likely issuer would be the Local Education Agency, but the local or State government may issue the QZABs in other cases.

4. The parties must determine the source of repayment of the $500,000. The QZAB tax credit mechanism may eliminate the interest cost, but the QZAB is still a loan that must be repaid.

5. The school system seeks an allocation from the State Education Agency (SEA) for an

amount equal to $500,000 (the amount the school expects to borrow). The SEA must then provide a written verification of an allocation of the QZAB volume limitation.

6. Arrangements are made for a financial institution, bank, insurance company or corporation in the business of lending money to purchase the QZAB.

7. The proceeds of the QZABs are used to renovate and equip classrooms.

In this case, assume the issuing governmental unit sells the QZAB to a financial institution and they both enter into an appropriate agreement for the $500,000. The credit rate on the bond is set under the QZAB provisions at 110% of the long term "applicable federal rate" (AFR) published monthly by the Internal Revenue Service. The school system agrees to pay the full $500,000 back in 14 years. The loan documents, the hospital's written commitment, and the school's spending plan are reviewed by a tax lawyer to obtain an opinion for the financial institution that the transaction is a QZAB that enables the holder to take the tax credit. The financial institution might require the school system to set aside an amount each year in a segregated interest-bearing fund to ensure that the debt can be repaid when the loan matures. Over each of the 14 years, the financial institution receives a tax credit equal to the stated credit rate times the outstanding bond amount; however, the credit itself is taxable and must be included in the income of the bond holder.

There is, however, no "one size fits all" approach. Each partnership will reflect the different needs and values of that business, school and community. For example, one state may have a number of well established and successful school-business partnerships that could be expanded or greatly enhanced through a QZAB application. The QZAB could provide additional incentives for employers to choose to invest in school partnerships because they provide a cost-effective way of recruiting and retaining employees. It is also worth noting that employers who hire empowerment zone or enterprise community residents may be entitled to special tax credits.

States or localities might want to use QZABs to build upon some established school partnerships Two school-business partnerships are described below and offered as examples of some effective models.

PLANNING FOR CHANGE

QZABs can be an important ingredient in revitalizing school reform efforts in high poverty urban and rural areas, and can be used in conjunction with a variety of other programs such as School- to-Work, Goals 2000, and programs authorized under the *Elementary and Secondary Education Act.* However, if they are used in this manner the school will have to follow the relevant requirements of these laws.

What follows are some pointers as to how QZABs may stimulate a dialogue with key stake-holders in high poverty communities. QZABs can serve as a rallying point to leverage a greater commitment to support schools as they begin to transform themselves into the type of high-performing learning organizations needed for the next century. The suggestions are gathered from almost a decade of work on business-school partnerships undertaken by the U.S. Department of Education's Office of Educational Research and Improvement (OERI).

GETTING STARTED

There are many ways to begin to plan to use QZABs. One promising method the research literature suggests is to begin with a survey of needs among local businesses in an empowerment zone or enterprise community. These entities have had to undertake, for the purposes of gaining their federal funding, a

strategic plan required to contain an economic needs assessment. From this plan it will be possible to derive a sense of the community's vision in terms of how it planned to satisfy the EZ or EC's program's four key principles--creating economic opportunity, creating sustainable community development, building broad community participation among community-based partners, and describing a strategic vision for change. The plan will provide a sense of the key work force skills needed as well as a list of business contacts. This document could be a starting point for a State or local education agency to address the community's needs through its K-12 system. Community colleges can also be a valuable source of support to identify workforce needs.

A school can also decide to focus on identifying a particular business partner itself. For example, a school could identify an industry which regionally shows signs of growth and opportunity and begin to research the skill sets those employers need. This type of analysis in conjunction with a review of appropriate State and local content and performance standards could greatly assist in the planning for a QZAB curriculum.

A school may wish to establish a partnership to improve the student achievement levels of a school and work with business to make available professional development opportunities designed to increase the ability of the teaching staff to teach to high academic standards.

Two-year colleges as well as four-year institutions, might assist in facilitating effective school partnerships as many of them serve as a bridge between classrooms and the workplace. Whether it is in the area of leadership development for the partners in question, professional development for the staffs or as experts in the area of designing school-to-work curriculum, community colleges and universities can serve as an invaluable resource in the development and sustenance of the Qualified Zone Academy.

Coalitions

A partnership may be formed between several schools and businesses so long as the partnership requirements pertaining to a single school-business partnership are maintained, --i.e., the business provides 10 percent of the bond's gross proceeds to each school, a specific curriculum that addresses the goals of the Qualified Zone Academies is formed (improved graduation, college entrance and workforce participation) and the plan is approved by each school's respective LEA.

Sustaining a Partnership

Successful educational partnerships begin with a clear vision and a shared sense of commitment among the partners. There may also be a need for technical assistance designed to ensure that the partnership is, over the long term, capable of fulfilling its goals. Such technical assistance is often most useful in helping staff shift roles, for example a partnership may require a teacher or company employee to become a coordinator of a mentorship or internship program.

Assistance may also be needed when developing an appropriate curriculum for the specialized program that the QZAB may want to develop. Research suggests that the greater the change required the greater the need for technical assistance.

Materials may be needed to let parents and local area employers know about the school's program, and its academic and workforce objectives. Other considerations may include providing release time for staff and specific kinds of skill training.

The research also suggests that successful partnerships know their objectives, possess a clear understanding of their respective roles and value a problem solving orientation.

Availability of Technical Assistance

The National School-to-Work Office has a web site that lists the services of 192 technical assistance providers (WWW.STW.ED.GOV). Some of these providers may be available to assist with QZAB partnership formation These technical assistance providers fall into two categories--ones that can provide assistance anywhere in the country and those that are only available in a local area. These providers were selected using rigorous criteria from a national search and include a large range of expertise--from building partnerships, how to develop an integrated curriculum, involving employers and developing career pathways. Other types of assistance may be gained from the National Alliance of Business (NAB) which through its School Business Coalition supports over 400 state and local school- business partnerships. NAB's Web site is (WWW.NAB.COM).

Conclusion

The U.S. Department of Education's Empowerment Zone, Enterprise Community Taskforce is available to answer questions and to provide a limited amount of site specific technical assistance. Please contact: Dr. William L. Smith, Director, U.S. Department of Education Empowerment Zone and Enterprise Community Task Force, Mail Stop 4502, 330 C St. SW, Washington, D.C. 20202, (202) 401-0843 or E-mail William_Smith@ed.gov

The Massachusetts Youth Teenage Unemployment Reduction Network: Integrating Curriculum With Instructional Internships:

The Massachusetts Youth Teenage Unemployment Reduction Network (MYTURN) project is an alliance of public schools, institutions of higher education, corporations and small businesses seeking to improve educational opportunities for students in their community. Students learned about the overall workings of business by spending four to six hours each week training in a different area of the business (e.g., sales, human resources, shipping and receiving, telemarketing, billing and payroll). One or two sessions with the chief executive officer or a senior vice president was also included as a means of acquainting students with organizational philosophies and missions.

Students are required to keep a journal of their work experience, which was turned into their advisor at the end of their internship. Student journal keeping was a developmental aid for participating students and project staff. In addition, students were also required to write a three to five page paper on their experience. The paper and the journal led to course credit for the internship further motivating the student to succeed.

The business point person was provided with a manual prior to any student contact. The manual includes sample curricula on which the firm could model the curriculum required as part of the student's internship experience.

Contact person:

Barbara Duffy, Executive Director
MYTURN Inc.
43 Crescent Street
Brockton, MA 02401
(508) 580 7543

The Boston Private Industry Council School-Business Partnerships: An Established School Business Partnership:

For the past 11 years the Boston Private Industry Council has been recruiting businesses to become partners with Boston Public Schools and to participate in School-to-Career Pathways. In school-business partnerships, businesses are linked with a particular school where they serve on the School-Site council and determine the resources they are going to invest--human, material and financial--based on the individual needs of that school and the resources of that business. School-to-Career Pathway partners--employ students, provide workplace experiences to complement the curriculum, provide industry mentors and, in some cases, financially support the pathway at the school and contribute scholarships.

In 1993-94 it was estimated that such partnerships represented an investment of over $10 million annually.

Contact: Jo Corro
The Boston Private Industry Council
2 Oliver Street
Boston, Massachusetts 02109
Phone (617) 423 3755
Fax: (617) 423 1041